

MEMORANDUM FOR CHIEF FINANCIAL OFFICERS OF EXECUTIVE
DEPARTMENTS AND AGENCIES SUBJECT TO THE CHIEF
FINANCIAL OFFICERS ACT AND THE GOVERNMENT
MANAGEMENT REFORM ACT OF 1994

FROM: BRENDA KYLE
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SUBJECT: Federal Employees' Compensation Act Liabilities

This transmits Federal agencies' **unaudited estimated actuarial liability for future workers' compensation** (FWC) benefits for the fiscal year ended 2001. For comparative purposes, FY 2000 amounts are also presented. By January 2002 the Department's Office of Inspector General will issue the results of their audit of the FWC liability.

Per Office of Management and Budget (OMB) guidance, each reporting entity preparing financial statements under the Chief Financial Officers (CFO) Act and the Government Management Reform Act (GMRA) should include its respective portion of the actuarial liability for workers' compensation benefits as a liability in its financial statement, if such amounts are material.

The amounts presented on the Attachment were developed by the Department of Labor's (DOL) Employment Standards Administration (ESA). A description of the methodology used to estimate the actuarial liability is also included in the Attachment. In addition to the amounts reported for CFO Act agencies, amounts are presented for the Agency for International Development, Federal Emergency Management Agency, National Science Foundation, Nuclear Regulatory Commission, the Office of Personnel Management, and the Small Business Administration, to facilitate implementation of GMRA requirements. Agencies not specifically listed are included in the "Other" category. DOL/ESA is unable to estimate the actuarial liability for the individual agencies comprising the "Other" category.

This guidance is for the purpose of financial statement presentation only and is not intended for use as a standard for incorporating actuarial liabilities in fees, prices, and reimbursements. Federal entities should comply with laws and regulations related to pricing policies in general and for specific types of goods and services. Additional guidance on recording this actuarial liability is contained in the Federal Intragovernmental Transactions Accounting Policies Guide, at the following address <http://www.fms.treas.gov/cfs/dev/finalguide.pdf> on the internet.

Attachment

ACTUARIAL LIABILITY ESTIMATES FOR
FUTURE WORKERS' COMPENSATION BENEFITS

	<u>Dollars in thousands</u>	
	<u>2001</u>	<u>2000</u>
United States Postal Service	7,399,470	6,298,430
Department of the Navy	2,968,541	2,665,434
Department of the Army	1,955,183	1,731,678
Department of Veterans' Affairs	1,812,675	1,585,031
Department of the Air Force	1,529,893	1,337,201
Department of Transportation	1,202,987	1,086,745
Department of Justice	1,193,590	985,513
Department of the Treasury	1,076,106	915,638
Department of Defense, Other	954,116	876,106
Department of Agriculture	878,963	768,532
Tennessee Valley Authority	657,530	586,388
Department of the Interior	663,471	584,830
Department of Health and Human Services	293,355	263,893
Social Security Administration (3)	278,345	239,414
Department of Labor (1)	250,278	221,280
General Services Administration	198,853	178,996
Department of Commerce	223,716	155,647
Department of Energy	95,748	84,485
Dept. of Housing and Urban Development	84,758	74,653
Natl. Aeronautics & Space Administration	69,672	61,581
Department of State	56,645	49,916
Environmental Protection Agency (3)	39,633	33,673
Small Business Administration (3)	32,255	30,746
Agency for International Development	30,905	29,819
Federal Emergency Management Agency	25,241	21,996
Department of Education	22,723	18,820
Office of Personnel Management	13,752	12,736
Nuclear Regulatory Commission	10,849	8,230
National Science Foundation (3)	1,806	1,767
Other (2)	<u>711,562</u>	<u>606,476</u>
Totals	24,732,621	21,515,654

- (1) Excludes amounts not chargeable to other Federal agencies.
- (2) "Other" is defined as all agencies not specifically identified above receiving annual FECA bills.
- (3) All the above figures are unaudited. We are confident that with the exception of the figures for these agencies, the audited numbers will not vary materially from the amounts depicted above. While we believe the figures for these agencies will not change materially, we cannot provide the same level of assurance.

The liability for future workers' compensation (FWC) benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2001
5.21% in year 1
5.21% in year 2
and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. These factors were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2001	3.33%	4.44%
2002	3.00%	4.15%
2003	2.56%	4.09%
2004	2.50%	4.09%
2005+	2.50%	4.09%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.